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STATE OF MONTANA
LEGISLATIVE COUNCIL

FINANCIAL REPORT

Fiscal Year Ended June 30, 1981



OFFICE OF THE LEGISLATIVE AUDITOR
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STATE OF MONTANA
LEGISLATIVE COUNCIL

FINANCIAL REPORT

Fiscal Year Ended June 30, 1981

Office of the Legislative Auditor



STATE CAPITOL
HELENA, MONTANA 59620
406/449 3122

JAMES H. GILLETT, C.P.A.
ACTING LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Legislative
Council for the year ended June 30, 1981.

The audit was conducted by Hugh McWhorter, CPA, under a contract
between the firm and our office. The comments and recommendations
contained in this report represent the views of the firm and not
necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James H. Gillett".

James H. Gillett, CPA
Acting Legislative Auditor

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LEGISLATIVE COUNCIL

List of Officials

Senators

Pat Goodover, Chairman

Carroll Graham

Joseph Mazurek

Jesse O'Hara

Representatives

John Vincent, Vice Chairman

Burt Hurwitz

Rex Manuel

Barbara Spilker

Staff

Diana S. Dowling, Executive Director

LEGISLATIVE COUNCIL

Summary of Recommendations

RECOMMENDATION:

When the Legislature legislates that sales prices of publications are to be established based upon the costs of publication, cost should be defined.

RESPONSE:

Agree.

RECOMMENDATION:

Reflect amounts due on credit sales of publications as assets within SBAS.

RESPONSE:

Attempt to be made to do this, at least annually.

RECOMMENDATION:

Adjust PAMS to include fixed assets reflected in financial statements, at June 30, 1981 but not in PAMS.

RESPONSE:

Department of Administration should issue guidelines for including all assets of an agency on PAMS.

RECOMMENDATION:

Assess payroll taxes and withhold Federal and State taxes on Legislator "salaries" received pursuant to M.C.A. 5-2-302.

RESPONSE:

Confident that each of the permanent Legislative Committees will discuss and give staff direction. Advice to be sought from Central Payroll.

HUGH A. McWHORTER
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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
MONTANA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

PRO 58-206 443 1461

Legislative Audit Committee
State Capitol
Helena, Montana

I have examined the financial statements of the various funds and the General Fixed Asset Group of Accounts of The Legislative Council for the year ended June 30, 1981, listed in the foregoing Table of Contents. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion, the accompanying financial statements present fairly the financial position of the General Fund and Special Revenue Funds, the Revolving Fund and the General Fixed Asset Group of Accounts of the Office of The Legislative Council as of June 30, 1981, and the results of operations of the General Fund, Special Revenue Funds and the results of operations and changes in financial position of the Revolving Fund for the year then ended, in conformity with generally accepted accounting principles which, with the exception of the changes, with which I concur, in giving effect to receivables and inventories at June 30, 1980 and 1981 and recognition of unrecorded fixed assets, have been applied on a basis consistent with that of the preceeding year.

My examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information appearing on pages 12 to 15 and the column on the accompanying balance sheet captioned "Total - Memorandum Only" are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relationship to the basic financial statements taken as a whole.

Hugh A. McWhorter

October 2, 1981
Helena, Montana

LEGISLATIVE COUNCIL

Combined Balance Sheet June 30, 1981

	General Fund	Special Revenue Funds	Revolving Fund	General Fixed Assets-Group of Accounts	Totals (Memorandum Only)
<u>ASSETS</u>					
Cash	\$ --	\$ --	\$426,924	\$ --	\$426,924
Expense Advances					
to Employees	\$ 260	\$ --	\$ --	\$ --	\$ 260
Accounts Receivable	\$ --	\$ --	\$ 26,438	\$ --	\$ 26,438
Due for State of					
Montana General					
Fund	\$ 79,902	\$ --	\$ --	\$ --	\$ 79,902
Merchandise Inventory	\$ 12,060	\$ --	\$136,042	\$ --	\$148,102
Work-in-Process	\$112,115	\$ --	\$ --	\$ --	\$112,115
Equipment	\$ --	\$ --	\$ --	\$ 58,082	\$ 58,082
	<u>\$204,337</u>	<u>\$ --</u>	<u>\$589,404</u>	<u>\$ 58,082</u>	<u>\$851,823</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>					
Accounts Payable	\$ 64,562	\$ --	\$ 23	\$ --	\$ 64,585
Accrued Expenditures	\$ 15,600	\$ --	\$ 41	\$ --	\$ 15,641
Reserve for					
Inventories	\$ 12,060	\$ --	\$ --	\$ --	\$ 12,060
Reserve for Work-					
in-process	\$112,115	\$ --	\$ --	\$ --	\$112,115
Investment in General					
Fixed Assets	\$ --	\$ --	\$ --	\$ 58,082	\$ 58,082
Fund Balance	\$ --	\$ --	\$589,340	\$ --	\$589,340
	<u>\$204,337</u>	<u>\$ --</u>	<u>\$589,404</u>	<u>\$ 58,082</u>	<u>\$851,823</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF TEXAS

REVENUE FUND
 FUND BALANCE

REVENUE FUND
 FUND BALANCE

REVENUE FUND

REVENUE FUND

STATE

TOTAL

REVENUE

REVENUE FUND
 REVENUE FUND
 REVENUE FUND

REVENUE FUND

Support from
 Support from
 Support from
 Support from

Other Financing

REVENUE FUND
 OTHER FINANCING SOURCE
 OVER (UNDER) EXPENDITURES

FUND BALANCE JULY 1, 1980

FUND BALANCE JUNE 30, 1981

The accompanying notes are an integral part of these financial statements.

LEGISLATIVE COUNCIL

Statement of Revenues, Expenses, and Changes In Retained Earnings/Fund Balance -- All Proprietary Funds Fiscal Year Ended June 30, 1981

	Montana Code Annotated
Revenues:	
Publication Sales	
Outside Parties	\$ 313,996
Other State of Montana Agencies	\$ 34,243
Total Revenues	<u>\$ 348,239</u>
Cost of Publications Sold:	
Beginning Merchandise Inventory	\$ 353,689
Contracted Services	\$ 54,815
Supplies and Materials	\$ 1,026
Communications	\$ 14,964
Cost of Goods Available for Sale	<u>\$ 424,494</u>
Ending Merchandise Inventory	<u>\$ 136,042</u>
Cost of Publications Sold	<u>\$ 288,452</u>
Gross Profit	<u>\$ 59,787</u>
Other Expenses:	
Travel	\$ 294
Equipment	\$ 11
Total Other Expenses	<u>\$ 305</u>
Net Income	<u>\$ 59,482</u>
Retained Earnings - Fund Balance July 1, 1980	<u>\$ 529,858</u>
Retained Earnings - Fund Balance June 30, 1981	<u><u>\$ 589,340</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

LEGISLATIVE COUNCIL

Statement of Changes In Financial Position

Fiscal Year Ended June 30, 1981

SOURCES OF WORKING CAPITAL

Operations:

Net Income	\$ 59,482
Working Capital Provided by Operations	\$ 59,482
Total Sources of Working Capital	\$ 59,482

USES OF WORKING CAPITAL

Net Increase in Working Capital	\$ 59,482
---------------------------------	-----------

ELEMENTS OF NET INCREASE (DECREASE)
IN WORKING CAPITAL

	June 30, 1981	June 30, 1980	Increase (Decrease)
Cash	\$426,924	\$271,921	\$155,003
Accounts Receivable	\$ 26,438	\$ 1,201	\$ 25,237
Merchandise Inventory	\$136,042	\$353,689	(217,647)
Total Current Assets	<u>\$589,404</u>	<u>\$626,811</u>	
Accounts Payable	\$ 23	\$ --	\$ (23)
Accrued Expenditures	\$ 41	\$ 96,953	\$ 96,912
Total Current Liabilities	<u>\$ 64</u>	<u>\$ 96,953</u>	
Working Capital	<u>\$589,340</u>	<u>\$529,858</u>	<u>\$ 59,482</u>

The accompanying Notes to Financial Statements are an integral part of this financial statement.

LEGISLATIVE COUNCIL

Notes To Financial Statements

Year Ended June 30, 1981

(1) General Information and Summary of Significant Accounting Principles.

The Legislative Council serves the Legislature of Montana as a research and service organization. It coordinates studies and other projects between legislative sessions and assists in the drafting of legislative bills preliminary to and during legislative sessions.

With the exception of the revolving fund, the financial statements have been prepared on the modified accrual basis of accounting. Under this method of accounting employees vested annual and sick leave are not recognized within the accounts of The Council until the related expenditure is incurred.

The revolving fund accounts have been prepared on the accrual basis of accounting with inventories being held for resale and receivables arising from sales and payables all being recognized in the financial statements. Inventories are valued on the specific cost identification method. To the extent that inventories exist where costs exceed sales prices, these inventories are valued at sales prices.

The financial statements of The Legislative Council have been prepared from the Statewide Budgeting and Accounting System (SBAS) and the Property Accountability and Management System (PAMS) with the following adjustments:

General and Special Revenue Fund

<u>Account</u>	<u>Description</u>	<u>Amount</u>
Work In Process	To give recognition to costs incurred relative to the future publication of the Constitutional Convention	\$112,115

Revolving Fund

Receivables	To give recognition to receivables associated with credit sales still outstanding at June 30, 1981. (Receivables aggregating \$1,201)
-------------	--

were outstanding at June 30, 1980.
Accordingly publication sale revenue
has been increased \$24,988.) \$ 26,189

Inventories To give recognition to inventories
in existence at June 30, 1981. The
effects of inventories at June 30,
1980 are disclosed in the face of
the Statement of Revenues, Expenses
and Changes In Retained Earnings/Fund
Balance. \$136,042

General Fixed Asset Group of Accounts

Equipment To give recognition to fixed assets
owned but not reflected in PAMS \$ 25,410

(2) Appropriations.

Appropriations reflected in the budget column of The Statement
of Revenues, Expenditures and Changes In Fund Balances represent
the sum of unexpended appropriations, carried forward from June
30, 1980, and applicable current year appropriations.

The Council utilizes for the most part a fixed basis of budgeting.
Under the fixed method, appropriations for specific dollar amounts
are set for each fiscal year of a biennium by the Legislature.
Appropriations control the Council's financial operations during
each fiscal year. At the end of each year, the remaining appropriation
balance reverts to the fund of original appropriation. The reverted
appropriation may be used in the subsequent year as authorization
for valid prior year obligations.

(3) General Fixed Assets.

General fixed assets are recorded as expenditures in the various
funds at the time of purchase. Such assets are subsequently capita-
lized within the general fixed asset group of accounts. Depreciation
is not recorded on general fixed assets.

(4) Retirement Plans.

Full time employees of The Council participate in the State of
Montana's Public Employee's Retirement System. Employees contribute
6% of compensation to the plan and the State contributes 6.2%. It
is impractical to separately disclose actuarial information for
The Council.

(5) Schedule for Grant Income and Disbursements.

	<u>Fiscal Year 1980 - 1981</u>	
<u>Grantor</u>	<u>Income</u>	<u>Disbursements</u>
National Conference of State Legislatures	\$3,648	\$3,648

LEGISLATIVE COUNCIL

Supplementary Information



— 2 —

$$Y_{\pm} = \frac{1}{2}(Y_1 \pm Y_2)$$



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Legislative Audit Committee
5th Floor Capitol
Helena, Montana

I have examined the financial statements of the Legislative Council for the year ended June 30, 1981, and have issued my report thereon dated October 2, 1981. As part of my examination, I made a study and evaluation of the Legislative Council's system of internal accounting control to the extent I considered necessary to fulfill the purpose of my study and evaluation was to determine the nature, extent and extent of the auditing procedures necessary for expressing an opinion on the Legislative Council's financial statements. My study and evaluation was not limited to the audit of the financial statements in my opinion on the system of internal accounting control taken as a whole.

The management of the Legislative Council is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimation and judgment by management are used to assess the expected benefits and relative costs of control. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly recorded in accordance with management's accounting policies. In my opinion, generally a sound accounting system.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may not be discovered. Also, the nature of any evaluation of the system of internal accounting control is subject to the risk that conclusions may be misleading because of changes in conditions or other factors not considered in the procedure as determined.

My study and evaluation made for the limited purpose was not intended to provide assurance that the financial statements are free of material misstatements. Accordingly, the audit opinion on the system of internal accounting control of the Legislative Council taken as a whole, is not a study and evaluation of the financial

following conditions that I believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of The Legislative Council may occur and not be detected within a timely period.

Inventories.

Several significant publications (The Constitutional Convention, The Montana Code Annotated and Annotations) have been produced and are currently stored in Council facilities for either current or future sales to either interested outside parties or other agencies of The State of Montana. Although properly reflected within the financial statements of The Council, costs associated with quantities of books on hand at any given point in time are not reflected within SBAS as assets. I recommend that SBAS be amended to include items of inventory held for sale. Concurrent with adopting this accounting change, a policy or law should be developed or passed with respect to what constitutes cost for purposes of inventory valuation.

With respect to the inventoriable cost of publications, my review of Legislation which authorized publications of the above books revealed that all of these publications are to be priced in such a manner as to recover, at a minimum, their cost. There was, however, one short-coming in the Legislation. Cost is not defined. For fiscal year 1981 costs charged against funds established for publications consisted exclusively of payments to printers and other direct costs. In previous years costs, for the Constitution Convention, have included some, but not all, costs of the Legislative Council in developing this publication. Thus charges against funds represent, to date, the culmination of certain inconsistencies. Such a policy results in pricing inconsistencies. In this regard, it would seem appropriate, and I recommend that the Legislature define, what costs are to be included and what costs are to be excluded in establishing publication sales prices.

Accounts Receivable.

Although appropriately reflected in the financial statements of The Council, amounts due on credit sales of publications are also not reflected within SBAS as assets of The Council. I recommend that the accounting policies of The Council be amended so that amounts due on credit sales are also reflected as assets of The Council within SBAS.

Fixed Assets.

A significant amount of fixed assets owned by The Council is not reflected within the Property Accounting Management (PAMS) records. Although these amounts are also properly reflected within the financial statements of The Council, I recommend that items currently excluded (tables, chairs and bookcases) be included within detail fixed asset records and control accounts be adjusted to reflect these additions.

Legislative Council Committee Member Compensation.

In accordance with the provision of M.C.A. 5-2-302, Legislators who serve on the Legislative Council are currently paid a "salary" during the time the Committee conducts authorized Committee business while the Legislature is not in session. As a salary, this compensation should be subject to Federal and State income tax withholdings, F.I.C.A. and Workers Compensation assessments. Currently, taxes are not being withheld from this compensation, nor are payroll tax assessments being paid. Of particular concern would be the State's financial exposure, if any, to the possibility of injury to a Committee member while on Committee business.

I recommend that this compensation be treated the same as compensation received by Legislators while the Legislature is in session. As such, all applicable taxes would be withheld and payroll assessments made. Concurrent with this change, it would seem appropriate for someone to assess the State's liability, if any, for previously unpaid F.I.C.A. and Worker's Compensation assessments.

It is my understanding that this observation has relevance to compensation paid to members of Committees other than the Legislative Council.

These conditions were considered in determining the nature, timing, and extent of audit tests applied in my examination of the 1981 financial statements dated October 2, 1981.

In addition to the foregoing comments, other matters came to my attention during the course of my examination. These matters are set forth in the paragraphs which follows.

Condition Of Accounting Records

I would consider myself remiss if I did not cite the outstanding quality of records maintained by Ms. Connelly in support of Legislative Council and Legislature transactions. Considering the diverse personalities of the legislators with whom she has to deal, I personally am somewhat amazed at the outstanding job she has done in documenting transactions. In short, I believe she is to be commended for a job well done.

Prior Audit Comments

As part of the current year's examination, I reviewed the current status of audit findings made in connection with the 1978 audit. My observations in this area are as follows:

- * fixed asset records have been established but see current year comment,

- * balance of the revolving fund cited in the 1978 Report has been disposed of, and
- * the Commission on Uniform State Laws is still in need of being assigned to an agency for administrative purposes.

I appreciate the opportunity to have made this examination and believe that my insights into the functioning of State Government has increased tremendously as a result of this work. I am further grateful for the many courtesies extended to me by the Executive Director of The Legislative Council and her staff.

Ray A. Andrews

October 2, 1981
Helena, Montana



SENATE MEMBERS
PAT M. GOODOVER
CHAIRMAN
CARROLL GRAHAM
JOSEPH P. MAZUREK
JESSE O'HARA

HOUSE MEMBERS
JOHN VINCENT
VICE CHAIRMAN
REX MANUEL
BURT L. HURWITZ
BOBBY SPILKER

Montana Legislative Council

State Capitol
Helena, MT. 59620

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DIANA S. DOWLING
EXECUTIVE DIRECTOR
CODE COMMISSIONER
ELEANOR ECK
ADMINISTRATIVE ASSISTANT
ROBERTA MODDY
DIRECTOR LEGISLATIVE SERVICES
ROBERT PERSON
DIRECTOR RESEARCH
SHAROLE CONNELLY
DIRECTOR ACCOUNTING DIVISION
ROBERT C. PYFER
DIRECTOR LEGAL SERVICES

November 6, 1981

AGENCY RESPONSE

Inventories. The law (1-11-301, MCA) now states that the Legislative Council is to set the sales price of the Montana Code Annotated not to exceed cost plus 20%. It is true that cost is not defined. The 1981 sales price of the code statute text included the following costs: \$18 per page for computerized typesetter and printer \$162,000; \$19.50 per page for index \$39,000; 25,000 covers @ 23¢ \$5,750; cost of Legislative Review, included with subscription, \$12,200; boxes \$1,500; invoices \$300; postage \$15,000; handling \$10,000; salaries of staff attorneys \$20,000; computer costs \$25,000. The only "costs" that are arbitrary are staff salaries and computer costs. They reflect a guess by myself. Precise accounting of staff and computer time would be difficult (but not impossible) because Council staff works on a variety of publications following each session, including Constitutional Convention Proceedings, Combined Final Status, House Journals, Senate Journals, Session Laws, Legislative Review, Directory of Interim Committees, code statute text and and amendment notes, and annotations.

Support staff, such as data entry operators and proofreaders, could conceivably be working on several of the above publications on any one day.

Just recently the Council purchased a software program for accounting for computer time so accounting for computer time used for any one project will be possible in the future. However, I believe accurate accounting for all staff time would be very difficult, if not impossible, and very time-consuming in and of itself. However, I do agree that cost should be more closely defined by law so that the Council director would have clear guidelines to follow when recommending a sales price to be set by the Council.

Accounts Receivable. We will attempt to develop a procedure for posting accounts receivable to SBAS, at least annually.

Agency Response
November 6, 1981
Page 2

Fixed Assets. We will group like items and include these fixed assets on PAMS although at the present time there is no authority or procedure for so doing. I would hope the Department of Administration would issue guidelines for including all assets of an agency on PAMS.

Council Compensation. We agree that the method of reimbursing legislators during the interim is a problem because of lack of withholding. I'm confident that each of the permanent legislative committees will discuss this and give staff direction on how to proceed. It appears that it may mean a burden of much additional paperwork for payroll clerks and probably will result in each legislator receiving two warrants for each meeting, one for salary and one for expenses. This will significantly increase costs to the state. We will ask for advice from Central Payroll and others on how to remedy the situation in the most simple and convenient way.

Cooperation Appreciated. I very much appreciate Mr. McWhorter's and Miss Mandeville's pleasant demeanor and willingness to spend much extra time looking at the many Council records that are not on SBAS or PAMS. I also appreciate their willingness to discuss and most affably resolve some misunderstandings that existed during the first phase of the audit.


Diana S. Dowling
Executive Director

DSD:ee

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